

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04
OPIC-06 LAB-04 SIL-01 /102 W
-----005676 301003Z /21

P R 300800Z JUN 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9052
TREASURY DEPT WASHDC
INFO AMEMBASSY ROME
AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY BRUSSELS

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BRUSSELS FOR US MISSION EEC
PARIS ALSO FOR US MISSION OECD

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS --JUNE 23-28

1. SUMMARY: IN WAKE OF REPORTS OF FOREIGN COMPLAINTS ABOUT JAPAN'S LARGE EXTERNAL SURPLUSES, PRIME MINISTER FUKUDA SAYS MORE DOMESTIC STIMULUS TO ACHIEVE 6.7 PERCENT GROWTH TARGET IS POSSIBLE, WITH OTHER MEASURES TO SHIFT CURRENT ACCOUNT TO DEFICIT NEEDED; AND YEN STRENGTHENS ON TOKYO FOREX MARKET. INDUSTRIAL PRODUCTION AND SHIPMENTS RECORD LARGE DECLINES IN MAY, AND JAPAN ECONOMIC RESEARCH CENTER PREDICTS ONLY 5.5 PERCENT REAL GROWTH IN FY 1977. LOAN INCREASES LIKELY TO REMAIN MODEST IN THIRD QUARTER. END SUMMARY.

2. COVERAGE OF STATEMENTS BY BOTH JAPANESE AND FOREIGN
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LEADERS AT OECD MINISTERIAL AND REPORTS OF SUBSEQUENT ACTIONS BY JAPAN'S POLICYMAKERS TO RESPOND TO CRITICISM VOICED THERE HAVE DOMINATED THE ECONOMIC NEWS THIS PAST WEEK. REPORTS OF THE PARIS MEETING HIGHLIGHTED CALL BY U.S. TREASURY SECRETARY BLUMENTHAL FOR SURPLUS NATIONS, INCLUDING JAPAN, TO SHIFT TO DEFICIT BY ELIMINATING PRACTICES WHICH FAVOR EXPORTS AND IMPEDING IMPORTS AND CONFIRMATION BY ECONOMIC

PLANNING AGENCY (EPA) DIRECTOR GENERAL KURANARI AT PARIS PRESS CONFERENCE WH JAPAN WOULD CONSIDER INCREASING ITS EFFORTS TO BOLSTER DOMESTIC DEMAND TO REDUCE THE PAYMENTS SURPLUS IN RESPONSE TO APPEALS FROM OTHER OECD COUNTRIES.

3. SUBSEQUENT DEVELOPMENTS WITHIN JAPAN INDICATED THAT OFFICIALS' AWARENESS OF THE STRENGTH OF PRESSURES BY OTHER OECD NATIONS FOR JAPAN TO TAKE STRONGER ACTION REMAIN KEEN. PRIME MINISTER FUKUDA, ON A STUMPING TOUR FOR CANDIDATES IN THE UPCOMING UPPER HOUSE ELECTION, VOWED JUNE 27 THE GOVT WOULD ATTAIN WITHOUT FAIL A 6.7 PERCENT REAL GROWTH RATE IN FY 1977; SAYING "IF IT LOOKS AS IF WE WILL NOT ATTAIN THAT GOAL, WE WILL TAKE NECESSARY MEASURES," FUKUDA HINTED THE GOVT MIGHT INTRODUCE A STIMULATIVELY SUPPLEMENTARY BUDGET FOLLOWING THE ELECTION IF GROWTH TARGET LOOKS HARD TO ACHIEVE. AT A MEETING WITH FOREIGN MINISTER HATOYAMA, FINANCE MINISTER BOH AND EPA DIRECTOR GENERAL KURANARI AT HIS RESIDENCE THE FOLLOWING DAY, FUKUDA EXPRESSED CONCERN ABOUT THE RISING CHORUS OF COMPLAINTS FROM OTHER COUNTRIES OVER JAPAN'S LARGE BALANCE OF PAYMENTS SURPLUSES AND ASKED THAT THE CONCERNED MINISTRIES STUDY MEASURES WHICH WOULD HELP REDUCE JAPAN'S BALANCE OF PAYMENTS (BOTH CURRENT AND CAPITAL ACCOUNT) SURPLUSES.

4. WITH FOREX MARKET PARTICIPANTS MULLING REPORTS OF COMPLAINTS VOICED AT THE OECD MEETING JUNE 29 PRESS
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ACCOUNTS OF THE PREVIOUS DAY'S POW-WOW AT THE PRIME MINISTER'S RESIDENCE AND A REPORTED U.S. REQUEST THAT JAPAN SELL ITS INTEREST EARNINGS ON OFFICIAL RESERVES IN THE FOREIGN EXCHANGE MARKET SENT THE YEN BOUNDING TO ITS HIGHEST LEVEL SINCE THE EVE OF THE 1973 OIL EMBARGO. DESPITE THE 2.5 YEN PER DOLLAR APPRECIATION ON A DAY WHEN SPOT TRADING VOLUME SOARED TO \$383 MIL (THE YEAR'S SECOND LARGEST) BANK OF JAPAN (BOJ) AUTHORITIES REPORTEDLY REFRAINED FROM INTERVENING -- APPARENTLY TO AVOID FURTHER COMPLAINTS OF EXCESSIVE INTERVENTION. THAT SAME DAY, PRIME MINISTER FUKUDA TOLD NEWSMEN HIS GOVT WOULD STRIVE TO REDUCE JAPAN'S FOREX RESERVES IN ORDER TO MITIGATE CRITICISM FROM ABROAD AND WOULD MOVE AHEAD WITH PLANS TO SHIFT THE CURRENT ACCOUNT TO DEFICIT BY MARCH 1978, THE END OF THE CURRENT FISCAL YEAR. EARLIER, BOJ GOV MORINAGA IN JUNE 23 SPEECH BEFORE GATHERING OF TOKYO BUSINESSMEN (INCLUDING FOREIGNERS) FLATLY DENIED THE GOVT WAS INTERVENING IN FOREX MARKETS TO SUPPORT A SPECIFIC YEN/DOLLAR RATE OR LEAD MOVEMENTS OF THE RATE IN A PARTICULAR DIRECTION. MORINAGA'S COMMENTS CAME IN REBUTTAL TO REMARKS BY VISITING U.S. ECONOMIST LAWRENCE KRAUSE, WHO HAD CITED CONTINUED FOREX RESERVE INCREASES AS INDICATING UPWARD PRESSURE ON THE YEN WHICH SHOULD RAISE FURTHER THE VALUE OF THE CURRENCY ON THE

TOKYO FOREX MARKET. WHILE CRITICAL OF KRAUSE'S POSITION ON EXCHANGE RATE POLICY, MORINAGA DID EXPRESS CONCERN ABOUT THE MAGNITUDE OF JAPAN'S PRESENT CURRENT ACCOUNT SURPLUS AND EMPHASIZED THAT THE SURPLUS SHOULD BE REDUCED THROUGH INCREASED IMPORTS RATHER THAN RESTRICTIONS ON EXPORTS.

5. BOTH INDUSTRIAL PRODUCTION AND SHIPMENTS REGISTERED LARGE SEASONALLY ADJUSTED DECLINES IN MAY, ACCORDING TO PRELIMINARY DATA RELEASED JUNE 28. DECLINE IN MINING AND MANUFACTURING PRODUCTION WAS MORE THAN TWICE AS GREAT AS INCREASE RECORDED IN PREVIOUS MONTH AND REFLECTED DECREASED OUTPUT IN NEARLY EVERY INDUSTRY. MAY SHIPMENTS DECLINE, SECOND IN A ROW, DROPPED PRODUCERS' SHIPMENTS OF UNCLASSIFIED

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FINISHED GOODS 3.5 PERCENT BELOW LEVEL RECORDED IN MARCH. SHIPMENTS OF IRON AND STEEL PRODUCTS FELL 6 PERCENT IN MAY FOLLOWING 2.3 PERCENT SEASONALLY ADJUSTED DECLINE IN APRIL. DETAILS OF MAY INDUSTRIAL PRODUCTION, SHIPMENTS AND INVENTORIES REPORTED TOKYO 9575.

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(INDEX, S.A., 1970 EQUALS 100; PERCENT CHANGE
FROM PRIOR MONTH IN PAREN)

	MIN. MFG. PRODUCTION	PRODUCERS' SHIPMENTS	INVENTORY TO SHIPMENTS RATIO
MAR	130.7 (2.5)	136.2 (2.9)	123.1 (-3.8)
APR	131.9 (0.9)	134.8 (-1.0)	124.6 (1.2)
MAY	129.1 (-2.1)	131.5 (-2.4)	129.6 (4.0)

6. JAPAN ECONOMIC RESEARCH CENTER'S (JERC) LATEST 18-MONTH FORECAST RELEASED JUNE 26 PREDICTS 5.5 PERCENT REAL GROWTH RATE FOR JFY 1977, WELL BELOW THE GOVT GROWTH TARGET OF 6.7 PERCENT. HOWEVER, 5.5 PERCENT FIGURE IS HIGHER THAN 5.1 PERCENT GROWTH PROJECTED IN PREVIOUS FORECAST RELEASED IN MARCH. THE UPWARD REVISION IS PARTLY DUE TO ASSUMPTION THAT ADDITIONAL PUBLIC WORKS SPENDING, TOTALING ABOUT 500 BIL YEN, WILL BE PROVIDED THROUGH SUPPLEMENTARY BUDGET FOR JFY 1977. JERC FORECAST PREDICTS MODERATE RECOVERY OF CONSUMER SPENDING DURING LATTER PART

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OF THIS FISCAL YEAR AS RETAIL PRICE INFLATION EASES FROM CURRENT 9 PERCENT LEVEL TO 7 PERCENT TOWARD END OF THIS FISCAL YEAR. HOWEVER, PRIVATE PLANT AND EQUIPMENT INVESTMENT IS PROJECTED TO RECORD SMALLER GROWTH RATE THAN LAST YEAR'S 3.4 PERCENT. JAPAN'S EXPORTS ARE PROJECTED TO RISE AT ANNUAL RATE OF 16.5 PERCENT IN JFY 1977 WHEREAS FY 1977 GROWTH IN IMPORTS IS FORECAST AT 2.9 PERCENT; AS A RESULT PROJECTED FISCAL YEAR CURRENT ACCOUNT SURPLUS IS REVISED UPWARD BY \$2.5 BIL FROM MARCH FORECAST TO \$7.6 BIL.

JERC ECONOMIC FORECAST

(IN REAL TERMS; PERCENT CHANGE FROM PRIOR
YEAR EXCEPT FOR CURRENT ACCOUNT BALANCE)

	1977			
	CY	JFY		
GNP	5.4	5.5		
PRIVATE CONSUMPTION			3.9	4.6
PVT. PLANT AND EQUIP. INVESTMENT			3.0	2.8
GOVT. CAPITAL FORMATION			9.7	13.9
CURRENT ACCOUNT SURPLUS (IN \$ BIL)			7.8	7.6

7. BOJ ANNOUNCED JUNE 28 THAT MAXIMUM QUARTERLY INCREASES IN LOANS BY THE 13 CITH CITY BANKS DURING COMING JUL-SEP PERIOD WOULD BE 1,129 BIL YEN, 13.1 PERCENT LESS THAN INCREASE RECORDED IN THE SAME QUARTER 1976. BOJ HAD PREVIOUSLY NOTIFIED COMMERCIAL BANKS THAT, EFFECTIVE WITH JUL-SEP QUARTER, IT WOULD RELAX

"WINDOW GUIDANCE" RESTRICTIONS OF BANK CREDIT EXPANSION FOR FIRST TIME SINCE JAN-MAR 1973 BY GENERALLY ALLOWING COMMERCIAL BANKS TO DECIDE OWN LOAN GROWTH LIMITS FOR JUL-SEP 1977 QUARTER. REPORTEDLY BOJ SUBSEQUENTLY APPROVED MOST OF THE PROPOSED INCREASES SUBMITTED BY THE 13 CITY BANKS, BUT ASKED

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TWO OR THREE BANKS TO REDUCE THEIR PLANS SOMEWHAT. BOJ OFFICIALS PREDICT RATHER WEAK PRIVATE DEMAND FOR FUNDS FOR THE COMING QUARTER. EMBASSY ESTIMATES OF CREDIT EXPANSION THROUGH SEP 1977, BASED ON QUARTERLY CREDIT GROWTH LIMITS APPROVED BY BOJ, ARE SHOWN IN RIGHT-HAND COLUMN OF TABLE BELOW. FOR JUL-SEP QUARTER, LOANS OUTSTANDING ARE ESTIMATED TO GROW AT ABOUT 9 PERCENT ANNUAL RATE, A SLOWER PACE THAN THAT RECORDED IN FIRST TWO QUARTERS OF THIS YEAR.

CITY BANK LENDING LIMITS

IN BIL YEN	INCREASE IN LIMIT		OUTSTANDING LOANS AD	
	PERCENT CHG		DISCOUNTS AT END OF	
	FROM PRIOR		QUARTER; PERCENT CHANGE	
	YEAR		FROM PRIOR	YEAR (NOTE)
1976: JUL-SEP	1,299	1.7	11.0	
OCT-DEC	1,564	MIN 3.4	10.5	
1977: JAN-MAR	1,130	MIN 1.4	10.0 (REV)	
APR-JUNE	960	MIN 7.9	9.7 (EST)	
JUL-SEP	1,129	MIN 13.1	9.1 (EST)	

(NOTE: TOTAL LOANS AND DISCOUNTS BY 13 CITY BANKS, INCLUDING SMALL AMOUNTS OF FOREIGN CURRENCY LOANS NOT INCLUDED IN LENDING LIMITS.)

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, ECONOMIC TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 30-Jun-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770233-0764
Format: TEL
From: TOKYO
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t1977061/aaaaaami.tel
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Litigation Codes:
Litigation History:
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Message ID: 29f57f72-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 16-Nov-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1989710
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS --JUNE 23-28
TAGS: EFIN, JA
To: STATE TRSY
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/29f57f72-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009